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WEITERE INFORMATIONEN OK

An unending variety of topics

Thursday, December 22, 2005

Secure property titles and development

Some development economists such as Hernando de Soto and Craig Richardson have stressed the crucial role of property rights in building wealth within and developing beyond an agricultural economy. In particular they emphasize the importance of recorded titles that allow property to be reliably pledged as collateral. In the above reference Craig Richardson reports in particular about how the recent deprivation of property rights in Zimbabwe led to the collapse of that economy. His statistical analysis eliminates substantial contributions from other hypothesized causes of that collapse, such as the minor drought. Richardson cites the observations of contemporaries that despite the drought, dams in Zimbabwe remained full. Irrigated farmlands had not been planted and fertilized properly in the first place and irrigation equipment had often been looted. Richardson traces these symptoms to the lack of incentives to properly raise crops and lack of seasonal loans to fund planting, fertilization, and irrigation, both consequent of uncertain property titles.

The importance for development of being able to use property as collateral is confirmed by Western Europe's own experience, starting in the late medieval era, in developing wealth within the agricultural economy and using agricultural wealth to finance ventures beyond agriculture. During this period Western Europe, and in particular the city-states of Italy, developed a wide variety of new kinds of contracts that provided the legal foundations for business ventures, loans, insurance, and a wide variety of other structures. Insurance, for example, enabled Europeans to mount unprecedented overseas ventures of trading an empire-building. In de Soto's terminology, Western Europe coverted "dead capital" of agricultural land and other fixed wealth into the "live capital" of manufacturing and overseas ventures.

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About Me

Nick Szabo

"A premier thinker about history, law and economics, and the lessons they have for security." -- Adam Shostack, Emergent Chaos

"Szabo comes out with these essays that leave me in awe." -- Brian Dunbar

"Reading material that is eclectic, challenging and endlessly fascinating." -- Sean McGrath, Propylon

"Like most blogs worth my attention, this blog is updated only infrequently. That is because the authors of blogs worth my attention only post when they have something to say that is true, relevant and not already known by their audience. Most of the human race does not have the skill to know when an idea has these three properties. The skill is particularly rare in the fields of politics and economics, which is why this blog is such a rare and valuable thing." -- Richard Hollerith

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Many of these contracts were based on collateral clauses. For example, *commenda* contracts allowed an investor (who was "sleeping," like a creditor, and thus had limited liability like a creditor, but unlike a creditor would be paid a share of profits) to fund the purchase of ships and goods and other financing of trading voyages. As early as 1073, the recipient of a *commenda* investment pledged "if I do not observe everything just as is stated above, I, together with my heirs, then promise to give and to return to you and your heirs everything in the double, both capital and profit, [i.e. the capital and profit plus again as much as a penalty], out of my land and my house or out of anything I am known to have in this world." Simimlarly other kinds of business venture investments, loans, insurance, and a wide variety of other contracts used in the Italian city-states were usually underpinned by pledges of land, goods, or both.

During the late Middle Ages Europeans cities started developing municipal records for recording these "security interests" in land and chattels. These allowed future creditors to check and see whether goods or real estate were already pledged. Along with these developments came the commercial innovations that made the industrial revolution and subsequent wealth of the West possible.

In our era a wide variety of kinds of property would benefit from distributed property title databases that reduce dependence on particular government offices for the security of property titles.

Image: Instruments for surveying property boundaries, from ancient Rome. Courtesy Deutches Museum, Munich Germany.

Posted by Nick Szabo at 12:42 PM

3 comments:

Brian Dunbar said...

In our era a wide variety of kinds of property would benefit from distributed property title databases that reduce dependence on particular government offices for the security of property titles.

Myself I'm seeing something like a root server for titles - distributed authority.

So .. good idea. How do we get from here to there? I imagine if I went to my local title company and suggested this they'd give me a funny look and usher me out the door.

5:23 PM

Nick Szabo said...

The best markets for this probably are:

(1) New kinds of property, especially online property. For example, we might start with an intermediate level domain name server.

(2) places where title records are insecure, such as many politically or economically underdeveloped countries. At least two common dangers to guard against:

(a) destruction of paper titles in a natural disaster, such as occurred at Aceh after last year's tsunami.

(b) destruction of titles for political reasons, as occurred in many communist revolutions, in Yugoslavia when it broke up, and many other despicable and common examples.

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#1 is easier as one can start very small scale. For #2 an NGO might be a good way to get it going.

7:16 AM

Brian Dunbar said...

Got any comp-sci students on hand to throw this at? Me .. I'm interested but lack the time.

However even more interesting is coming up with a way to make a living doing this ...

8:07 PM

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